

COLDWATER COMMUNITY SCHOOLS

FINANCIAL STATEMENTS

JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

**Board of Education
Coldwater Community Schools
Coldwater, Michigan**

September 20, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Coldwater Community Schools as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Coldwater Community Schools' management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit, also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Coldwater Community Schools as of June 30, 2006 and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated September 20, 2006 on our consideration of the School's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 33 through 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Coldwater Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Rumsey & Watkins P.C." in a cursive, stylized font.

RUMSEY & WATKINS, P.C.

COLDWATER COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Coldwater Community School's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006.

Using the Annual Report

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The financial statements also include notes that explain some of the information in the statements and provide more detail data. The statements are followed by a section of Required Supplementary Information that further explains and supports the financial statements with a comparison of the District's budget for the year.

The Basic Financial Statements include two kinds of statements that present different views of the district. The two kinds of statements are: 1) District-wide Financial Statements; and, 2) Fund Financial Statements.

District-Wide Financial Statements

These statements are full accrual basis statements and provide information about the District's overall financial status. The full accrual basis means that all assets and liabilities of the District are recorded, regardless of when related cash is received or paid. This is the basis of accounting used by most private sector companies. These financial statements are used to help determine whether or not the District is better off or worse as a result of the year's activities. It is important to keep in mind that while we are required to report financial information in this manner, it is not the goal of the District to generate a profit. Financial reports are just one indicator of the overall health of the District.

The Statement of Net Assets reports all of the District's assets and liabilities, both short-term and long-term, regardless if they are currently available or not. Capital assets and long-term obligations of the District are reported in this statement.

All of the current year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The total revenue less the total expense is referred to as the operating results for the current year. Sustained, positive operating results may indicate improving financial health, while decreasing operating results may indicate deteriorating financial condition.

The two District-Wide Statements report the District's net assets and how they have changed. Net assets is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors need to be considered, such as changes in the District's property tax base, the quality of education provided, and the condition of the District's buildings.

COLDWATER COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

In the District-Wide Statements, the District's activities are classified as Governmental Activities. This includes most of the District's basic services, such as instruction, support services, transportation and administration. Property taxes, state aid and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the District-Wide Statements. The fund level statements are reported on a modified accrual basis and include only current assets and current liabilities of the District. Only those assets that are measurable and currently available are reported. Liabilities are reported to the extent they will be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including Athletics, Food Service, Debt Service, Capital Project Funds and Fiduciary Funds.

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is recorded. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

COLDWATER COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District as a Whole

Below is a summary of the District's net assets for the years ended June 30, 2006 and 2005.

	Governmental Activities 2006	2005	Total Percentage Change
Current assets	\$ 7,297,319	\$ 8,273,940	-12%
Noncurrent assets	30,790,313	30,960,126	-1%
Total assets	38,087,632	39,234,066	-3%
Current liabilities	3,410,420	3,529,382	-3%
Noncurrent liabilities	23,924,591	25,016,875	-4%
Total liabilities	27,335,011	28,546,257	-4%
Net assets			
Invested in capital assets, net of related debt	6,527,698	5,845,198	12%
Restricted	1,174,906	1,025,455	15%
Designated	-	537,577	-100%
Unrestricted	3,050,017	3,279,579	-7%
Total net assets	\$ 10,752,621	\$ 10,687,809	1%

The District's net assets as of June 30, 2006 were \$10,752,621. Included in this amount is \$3,050,017 in unrestricted assets. The Board of Education has put no restrictions on how these assets may be used. This represents the accumulation of all past years' operations of the District. The District has restricted assets for the Sinking Fund requirements to provide future construction and repair along with any debt requirements. The remaining net assets represent investments in capital assets (land, buildings and improvements and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services for students; consequently these assets are not available for spending. Although the District's investment in capital assets is reported net of related debt, the debt must be repaid from other sources since the capital assets themselves cannot be used to liquidate these liabilities. The primary source for debt repayment is local property taxes.

COLDWATER COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The net assets of the District increased by \$302,196 or 3% during the 2005-06 fiscal year. The summary below shows the breakdown of this change.

	Governmental Activities		Total
	2006	2005	Percentage Change
Revenues			
Program revenues			
Charges for services	\$ 1,389,311	\$ 1,344,856	3%
Operating grants and contributions	2,650,905	2,548,416	4%
General revenues			
Property taxes	8,816,120	8,426,044	5%
State formula aid	16,105,602	15,308,979	5%
Interest	156,806	93,287	68%
Other	8,134	8,365	-3%
Total revenues	29,126,878	27,729,947	5%
Expenses			
Instruction	15,911,252	15,253,156	4%
Support services	8,824,853	8,214,785	7%
Community services	6,884	-	100%
Hot Lunch program	1,193,187	1,096,827	9%
Athletic program	676,953	588,329	15%
Interest	1,316,400	1,391,363	-5%
Other	1,194	-	100%
Unallocated depreciation	893,959	903,522	-1%
Total expenses	28,824,682	27,447,982	5%
Change in net assets	302,196	281,965	
Beginning net assets	10,687,809	10,405,844	
Prior period adjustment	(237,384)	-	
Beginning net assets, as restated	10,450,425	10,405,844	
Ending net assets	\$ 10,752,621	\$ 10,687,809	

As reported in the Statement of Activities, the cost of the District's governmental activities for the year is \$28,824,682. However, the amount that the District's taxpayers ultimately financed for these activities was only \$24,784,466 because \$1,389,311 was paid for by those benefiting from the programs and \$2,650,905 was paid for by other governments and organizations who subsidized certain programs with grants and contributions.

COLDWATER COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Total revenue increased by \$1,396,931 or 5% in 2005-06 as compared to 2004-05. The school district received \$6,875 per pupil in the state foundation aid allowance, which represented an increase of \$175 per pupil from 2004-05. The District also experienced an increase in student enrollment of 50 students. Property tax revenue increased as the taxable value of property increased within the District's boundaries. Interest income increased as interest rates rose and the District conservatively managed cash flow to maximize average earning assets.

Total expenses increased by \$1,376,700 or 5% in 2005-06 as compared to 2004-05. Direct classroom instruction represents the District's largest expenditure. Support services include library services, counselors and social workers, administration, clerical staff, maintenance and custodial activities and transportation services. Impacting the expenditures within these categories were salary and wage increases, increases in fringe benefit costs, primarily health insurance and retirement costs, and increases in utility and gasoline costs.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. The combined governmental funds equity decreased by \$286,448 based upon operating results for the 2005-06 school year. The governmental fund equity decreased by \$523,832 from 2004-05, including a \$237,384 prior period adjustment to the beginning fund balance. The prior period adjustment represents several years worth of payments owed to other school districts participating in a special education transportation consortium.

The District's general fund had higher operating expenses than operating revenue in 2005-06. The increase in the per pupil state foundation allowance was the first in the past four years and was not sufficient to keep up with the escalating cost of health insurance or mandatory retirement costs. The District also experienced increases in utility and gasoline costs. The operating expenses being higher than the revenue, combined with a \$459,793 transfer to support athletic programs, led to a \$493,651 general fund deficit for the 2005-06 school year. Combining the 2005-06 operating deficit with the prior period adjustment mentioned above, led to a \$731,035 decline in the general fund balance from 2004-05.

The District's hot lunch fund experienced increased revenue over expenditures during the 2005-06 school year leading to a \$73,100 increase in fund balance. The increase occurred due to increased sales to students and an increase in the free and reduced lunch count, which determines the amount of state and federal aid received to support the District's hot lunch program.

The District's athletic fund had higher operating expenses than operating revenue in 2005-06. This is primarily due to increased salary and benefit costs and planned upgrades to athletic supplies and equipment. The District's general fund supports the athletic fund by transferring funds to cover most of the salaries, fringe benefits, transportation and insurance costs of the athletic programs.

COLDWATER COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The District's capital projects sinking fund experienced a \$159,002 increase in fund balance during the 2005-06 fiscal year. Renovations to District's facilities are planned to occur during the summer break, primarily in July and August, when the tax dollars collected during 2005-06 will be expended.

The District's other funds experienced a \$13,975 decline in fund balance. This is primarily due to additional costs incurred for a bond refinancing. Although some additional costs were incurred at the time of the refinance, the long-term savings to the District's taxpayers will outweigh the costs.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget periodically during the year. These revisions are made in order to deal with unexpected changes in revenues and expenditures, which could have not been, anticipated when the original budget is adopted. The Board adopted the final amendment to the operating budget in June 2006. A schedule showing the District's original and final adopted budgets, as well as final actual revenue and expense, is provided in the annual report. The following analysis describes the major reasons for changes in the budget during the year.

Revenues – Revenues were increased by \$507,937 in the general fund revenue budget from the beginning to the end of the year. The adjustments to the general operating budget to more accurately reflect current revenues can be summarized as follows:

- Received additional State revenue due to an increase in student enrollment.
- Received additional property tax revenue from the Local Financing Authority.
- Adjustment of grant and grant carry-over revenue to the final approved grant amount

Expenditures – Expenditures were increased by \$597,280 in the general fund expenditure budget from the beginning to the end of the year. The adjustments to the general operating budget to more accurately reflect current expenses can be summarized as follows:

- Realigned instructional and non-instructional salary accounts to reflect bargained agreements.
- Included projected cost of retirement buy-out of \$263,000 for the 2005-2006 year.
- Reflected increased costs for heat and electricity.
- Added payments to taxing authorities for property tax adjustments.
- Amended grant and grant carry-over expenditures to reflect current funding levels.

COLDWATER COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Capital Assets and Debt Administration

Capital Assets – A summary of the District's capital assets, net of depreciation, at year-end is outlined below. Additional information on the District's capital assets may be found in Note F of the Notes to the Financial Statements in this annual report.

Summary of Capital Assets (Net of Depreciation)

	Governmental Activities	
	2006	2005
Land	\$ 107,429	\$ 107,429
Buildings	29,365,105	29,995,610
Equipment	468,320	399,049
Vehicles	552,019	458,038
Construction in progress	45,738	-
Total	\$ 30,538,611	\$ 30,960,126

Current year purchases consist of the purchase of 3 regular education buses and 1 special education bus, various remodeling projects and equipment purchases. However, because of the current year depreciation of previous capital assets purchases, the District experienced a \$421,515 decline in net capital assets in 2005-06.

Debt Administration – A comparative summary of the District's indebtedness at year-end is outlined below. Additional information on the District's long-term debt may be found in Note H of the Notes to the Financial Statements in this annual report.

Summary of Indebtedness

	Governmental Activities	
	2006	2005
Long-term bonded debt	\$ 24,174,355	\$ 25,017,788
Accumulated compensated absences	822,489	991,531
Total	\$ 24,996,844	\$ 26,009,319

Factors Bearing on the District's Future

There are several factors bearing on Coldwater Community Schools' general fund future. A substantial portion of the District's governmental fund revenues is received from state sources. As a result, the financial stability of the District is heavily dependent on the economic health of the State of Michigan. As mentioned above, state aid per pupil allowances have not been sufficient to cover the increase in operating expenses.

COLDWATER COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Schools are funded at the state level based on the number of students they educate. While we experienced an increase in student enrollment in the 2005-06 school year, projections for future years indicate a decline in students of approximately 50 students per year. It is very difficult to decrease staffing levels for this enrollment decline because the loss of students is not distributed in only one grade.

While revenues decline or remain the same as the previous year, many expenditures will continue to increase. The fastest growing cost in the budget is employee health insurance, as has been experienced in all industries nationwide. Employee health insurance is projected to increase by at least 10% per year. The next fastest growing cost in the budget is employee retirement. Due to health care costs for retirees and lower than projected earnings, the state has imposed a higher retirement rate on all salaries and wages paid to school employees. In 2005-06, the retirement rate increased from 14.87% to 16.34%. As of October 1, 2006, the retirement rate increased to 17.74%.

All of these factors place a heavy burden on the District's general fund equity. The Board of Education and administration are continuously looking for cost-savings methods to keep as many of the District's programs in place as possible.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to Milli A. Haug, Superintendent, Coldwater Community Schools, 401 Sauk River Drive, Coldwater, Michigan 49036, telephone (517) 279-5910.

COLDWATER COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,833,715
Receivables	
Accounts receivable	46,360
Due from other governmental units	3,213,004
Inventory	71,542
Prepaid expenses	132,698
Deferred charges, net of amortization	251,702
Capital assets less accumulated depreciation of \$13,197,162	<u>30,538,611</u>
 Total assets	 38,087,632
LIABILITIES	
Accounts payable	399,244
Salaries payable	1,079,146
Accrued expenditures	735,251
Deferred revenue	36,266
Long term liabilities:	
Bonds payable, due within one year	1,072,253
Bonds payable, due in more than one year	23,102,102
Accrued interest payable - bonds	88,260
Compensated absences	<u>822,489</u>
 Total liabilities	 27,335,011
NET ASSETS	
Investment in capital assets - net of related debt	6,527,698
Reserved	1,174,906
Undesignated	<u>3,050,017</u>
 Total net assets	 <u><u>\$ 10,752,621</u></u>

See Notes to Financial Statements

COLDWATER COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating / Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 15,911,252	\$ 239,195	\$ 2,071,312	\$ (13,600,745)
Support services	8,824,853	333,505	21,080	(8,470,268)
Community services	6,884	-	-	(6,884)
Hot Lunch	1,193,187	648,748	535,359	(9,080)
Athletics	676,953	167,863	23,154	(485,936)
Interest	1,316,400	-	-	(1,316,400)
Other	1,194	-	-	(1,194)
Depreciation unallocated	893,959	-	-	(893,959)
Total governmental activities	<u>\$ 28,824,682</u>	<u>\$ 1,389,311</u>	<u>\$ 2,650,905</u>	(24,784,466)
General revenues:				
Property taxes, levied for general purposes				6,074,017
Property taxes, levied for debt purposes				2,067,517
Property taxes, levied for sinking fund purposes				674,586
State aid not restricted for specific purposes				16,105,602
Interest and investment earnings				156,806
Other				8,134
Total general revenues				<u>25,086,662</u>
Change in Net Assets				302,196
Net Assets - Beginning as restated				<u>10,450,425</u>
Net Assets - Ending				<u>\$ 10,752,621</u>

See Notes to Financial Statements

COLDWATER COMMUNITY SCHOOLS**GOVERNMENTAL FUNDS****BALANCE SHEET****JUNE 30, 2006**

	General Fund	Hot Lunch Fund	Athletic Fund	Capital Projects Sinking Fund
ASSETS				
Cash and cash equivalents	\$ 1,928,403	\$ 511,864	\$ 38,775	\$ 1,166,321
Accounts receivable	36,868	9,492	-	-
Due from other governmental units	3,213,004	-	-	-
Due from other funds	-	13,658	-	8,585
Inventory	49,847	21,695	-	-
Prepaid expenses	132,171	527	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 5,360,293</u>	<u>\$ 557,236</u>	<u>\$ 38,775</u>	<u>\$ 1,174,906</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 367,059	\$ 32,185	\$ -	\$ -
Salaries payable	1,077,447	-	1,699	-
Accrued expenditures	470,334	518	1,501	-
Deferred revenue	36,266	-	-	-
Due to other funds	13,658	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,964,764	32,703	3,200	-
FUND BALANCE				
Reserved	-	-	-	1,174,906
Undesignated	<u>3,395,529</u>	<u>524,533</u>	<u>35,575</u>	<u>-</u>
Total fund balance	<u>3,395,529</u>	<u>524,533</u>	<u>35,575</u>	<u>1,174,906</u>
Total liabilities and fund balance	<u>\$ 5,360,293</u>	<u>\$ 557,236</u>	<u>\$ 38,775</u>	<u>\$ 1,174,906</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Totals
\$ 188,352	\$ 3,833,715
-	46,360
-	3,213,004
-	22,243
-	71,542
-	132,698
<u>\$ 188,352</u>	<u>\$ 7,319,562</u>
\$ -	\$ 399,244
-	1,079,146
-	472,353
-	36,266
8,585	22,243
<u>8,585</u>	<u>2,009,252</u>
-	1,174,906
179,767	4,135,404
<u>179,767</u>	<u>5,310,310</u>
\$ 188,352	\$ 7,319,562

COLDWATER COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS

RECONCILIATION OF BALANCE SHEET OF

GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2006

Total Fund Balance - Governmental Funds	\$ 5,310,310
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in funds:	
The cost of the capital assets	43,735,773
Accumulated depreciation	<u>(13,197,162)</u>
Total capital assets not reported in funds	30,538,611
Unamortized deferred charges	251,702
Accrued amounts reported in the statement of net assets includes retirement buy-outs not reported in the funds	(262,898)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable	(24,174,355)
Compensated absences	<u>(822,489)</u>
Total long-term liabilities not reported in funds	(24,996,844)
Accrued interest payable is not included as a liability in governmental activities	<u>(88,260)</u>
Total Net Assets - Governmental activities	<u>\$ 10,752,621</u>

COLDWATER COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Hot Lunch Fund	Athletic Fund	Capital Projects Sinking Fund
REVENUES				
Local sources	\$ 6,517,767	\$ 601,773	\$ 192,568	\$ 703,103
State sources	17,136,504	76,905	-	-
Federal sources	871,050	582,334	-	-
Other districts	260,605	-	-	-
Total revenues	24,785,926	1,261,012	192,568	703,103
EXPENDITURES				
Instruction	15,785,768	-	-	-
Support services	8,743,954	1,178,253	653,665	15,672
Community services	6,884	-	-	-
Capital outlay	283,178	9,659	9,620	294,185
Bond issuance cost	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and charges	-	-	-	-
Miscellaneous	-	-	-	1,194
Total expenditures	24,819,784	1,187,912	663,285	311,051
Excess (deficiency) of revenues over expenditures	(33,858)	73,100	(470,717)	392,052
OTHER SOURCES (USES)				
Proceeds from refunding debt	-	-	-	-
Bond premium	-	-	-	-
Payments to escrow agent	-	-	-	-
Transfers from (to) other funds	(459,793)	-	459,793	(233,050)
Total other sources (uses)	(459,793)	-	459,793	(233,050)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(493,651)	73,100	(10,924)	159,002
FUND BALANCE - BEGINNING AS RESTATED	3,889,180	451,433	46,499	1,015,904
FUND BALANCE - ENDING	\$ 3,395,529	\$ 524,533	\$ 35,575	\$ 1,174,906

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Totals
\$ 2,184,269	\$ 10,199,480
-	17,213,409
-	1,453,384
-	260,605
2,184,269	29,126,878
-	15,785,768
2,250	10,593,794
-	6,884
8,629	605,271
262,951	262,951
1,042,444	1,042,444
1,232,971	1,232,971
-	1,194
2,549,245	29,531,277
(364,976)	(404,399)
8,465,000	8,465,000
184,889	184,889
(8,531,938)	(8,531,938)
233,050	-
351,001	117,951
(13,975)	(286,448)
193,742	5,596,758
\$ 179,767	\$ 5,310,310

COLDWATER COMMUNITY SCHOOLS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in Fund Balance - Total Governmental Funds	\$ (286,448)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(1,026,786)
Capital outlay	<u>605,271</u>
Total	(421,515)
Accrued interest is recorded in the statement of activities when incurred and it is not reported in governmental funds until paid	8,880
Accrued expenses for retirement buy-outs is recorded in the statement of activities when incurred and is not reported in the governmental funds until paid	(262,898)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal repayment	1,042,444
Bond issuance cost	262,951
Bond issuance amortization	(11,249)
Premium on debt issuance	(184,889)
Amortization on bond premium	7,910
Amortization on deferred amount of bond refunding	(22,032)
Decreases in compensated absences are reported as a reduction to expenditures in accordance with GASB Interpretation No. 6	<u>169,042</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 302,196</u></u>

COLDWATER COMMUNITY SCHOOLS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	<u>Student Activities Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 150,688
Investments	<u>10,000</u>
Total assets	<u><u>\$ 160,688</u></u>
LIABILITIES	
Due to student groups	<u><u>\$ 160,688</u></u>

COLDWATER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Coldwater Community Schools conform to generally accepted accounting principles in the United States of America as applicable to local school districts. The following is a summary of significant policies:

REPORTING ENTITY:

The Board of Education, a seven member group, has responsibility for activities relating to public elementary and secondary education within their jurisdiction of Coldwater, Michigan. The Board receives funding from local, state and federal sources and must comply with the requirements of these funding sources. The Board is not a component unit of any other government reporting entity. The Board is elected by the public and has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

There were no other governmental entities considered for inclusion with the District as a component unit.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS:

The district-wide financial statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree of which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION:

District-wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION:

MAJOR GOVERNMENTAL FUNDS

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Hot Lunch Fund is used to account for the resources and administration of the District's school lunch program.

Athletic Fund is used to account for the resources and administration of the athletic programs for the District.

Capital Projects Sinking Fund is used to account for resources specifically designated for the acquisition and constructions of facilities and for major capital repairs and improvements of facilities.

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the district in an agency capacity for student organizations and student special projects. Agency funds are custodian in nature, assets equal liabilities, and do not involve measurement of results of operations.

Additionally, the District reports the following nonmajor governmental fund types:

1994/1997 Refunding Debt Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest and other related costs.

2003 Debt Service Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest and other related costs.

Durant Debt Service Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest and other related costs. Payments for the Durant Debt Service Fund are totally funded by the State of Michigan.

2001/2005 Refunding Debt Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest and other related costs.

2001 Building and Site Fund is used to account for resources specifically designated for acquisition and construction of facilities and for major capital repairs and improvements of facilities.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, AND NET ASSETS

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at cost, which approximates fair market value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts.

Inventory and Prepaid items – Inventory is valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The District defines capital assets as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The District does not have infrastructure type assets.

Buildings, equipment, computers and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 Years
Equipment	5-20 Years
Vehicles	3-5 Years

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

BASIS OF BUDGETING:

The District adopted their annual budgets based on the modified accrual method of accounting. Revenues and expenditures were estimated by the individual line item basis, but adopted and amended by the Board of Education by the functional level for each fund. Once a budget is approved, it can be amended at the functional level. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by law. Revisions to the budgets were made during the year.

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

STATE AID REVENUE:

The State of Michigan had adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average pupil membership counts taken in February and October of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period, currently the fiscal year, and was funded through 11 payments from October 20, 2005 through August 20, 2006.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS

The District uses financial institutions for cash purposes, which is in accordance with statutory authority. The accounts maintained in the financial institutions are checking, savings and certificates of deposit. The interest rates of the checking and savings accounts are at variable daily rates.

Investments with the bank consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value. The certificates of deposits are currently earning rates of 4.25% to 4.55%.

The District's cash and investments at June 30, 2006 are as follows:

	Governmental <u>Activities</u>	Fiduciary <u>Funds</u>	Total <u>Government</u>
Cash and investments	<u>\$ 3,833,715</u>	<u>\$ 160,688</u>	<u>\$ 3,994,403</u>

Interest rate risk – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The District does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk – The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of a financial institution failure, the District's deposits may not be recovered. As of June 30, 2006, \$4,415,651 of the District's bank balance of \$4,702,501 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

Foreign currency risk – The District is not authorized to invest in investments which have this type of risk.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE C – TAXES RECEIVABLE

The District's property taxes are levied each December 1 in all local governmental units except for the City of Coldwater. The taxes are levied in the City of Coldwater on July 1. Taxes are collected by the local governmental units within Branch County and are remitted to District. After February 28 of each year, all uncollected taxes are returned delinquent to the county.

The 2005 operating tax rates were as follows:

General Fund	18.000
1994/1997 Refunding Debt Fund	1.500
2001/2005 Refunding Debt Fund	1.500
2001 Sinking Fund	<u>0.962</u>
Total tax rate	<u><u>21.962</u></u>

There were no receivables recorded for taxes receivable as of June 30, 2006.

NOTE D – DUE FROM (TO) OTHER FUNDS

The due from (to) other funds, at June 30, 2006, for the District are as follows:

HOT LUNCH FUND

Due from General Fund	13,658
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CAPITAL PROJECTS SINKING FUND

Due from 2001 Building and Site Fund	<u>8,585</u>
Total due from other funds	<u><u>\$ 22,243</u></u>

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE E – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2006, for the District are as follows:

ATHLETIC FUND

Transfer from General Fund	<u>\$ 459,793</u>
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OTHER NONMAJOR FUNDS

2003 Debt Service Fund	
Transfer from Capital Projects Sinking Fund	<u>\$ 233,050</u>

Transfers are used (1) to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

COLDWATER COMMUNITY SCHOOLS**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006****NOTE F – CAPITAL ASSETS**

Capital asset activity of the District's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
GROUP:				
Land	\$ 107,429	\$ -	\$ -	\$ 107,429
Buildings	39,483,266	119,509	-	39,602,775
Equipment	1,860,101	178,810	-	2,038,911
Vehicles	1,679,706	261,214	-	1,940,920
Construction in progress	-	45,738	-	45,738
Subtotal	43,130,502	605,271	-	43,735,773
ACCUMULATED DEPRECIATION:				
Buildings	9,487,656	750,014	-	10,237,670
Equipment	1,461,052	109,539	-	1,570,591
Vehicles	1,221,668	167,233	-	1,388,901
Total accumulated depreciation	12,170,376	1,026,786	-	13,197,162
Net capital assets	<u>\$ 30,960,126</u>	<u>\$ (421,515)</u>	<u>\$ -</u>	<u>\$ 30,538,611</u>

Depreciation expense was charged to activities of the District as follows:

GOVERNMENTAL ACTIVITIES:	
Instruction	\$ 36,368
Support services	58,237
Hot Lunch	14,934
Athletics	23,288
Depreciation unallocated	<u>893,959</u>
Total governmental activities	<u>\$ 1,026,786</u>

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE G – DEFERRED REVENUE

Deferred revenue, at June 30, 2006, represents the following:

General Fund:

At Risk State Aid	\$ 17,985
School Readiness	11,736
Other	<u>6,545</u>
Total General Fund	<u><u>\$ 36,266</u></u>

NOTE H – LONG-TERM DEBT

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
Governmental Activities:				
Bonds	\$ 25,017,788	\$ 8,641,979	\$ 9,485,412	\$ 24,174,355
Compensated absences	<u>991,531</u>	<u>-</u>	<u>169,042</u>	<u>822,489</u>
Total governmental activities	<u><u>\$ 26,009,319</u></u>	<u><u>\$ 8,641,979</u></u>	<u><u>\$ 9,654,454</u></u>	<u><u>\$ 24,996,844</u></u>

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE H – LONG-TERM DEBT – Continued

The following is a summary of the long-term obligations for the District:

General obligation bonds payable at interest rates varying from 4.0% to 4.40%, annual principal payments ranging from \$575,000 to \$600,000, due May 2011	\$ 2,900,000
Refunding bonds payable at interest rates varying from 5.0% to 5.125%, annual principal payments ranging from \$630,000 to \$885,000, starting May 2010, due May 2023	11,300,000
Capital appreciation bonds payable at interest rates varying from 6.0% to 6.2%, annual principal payments ranging from \$238,017 to \$239,222, due May 2009	715,962
General obligation bonds payable at interest rates varying from 2.5% to 3.7%, annual principal payments ranging from \$195,000 to \$225,000, due May 2011	1,050,000
School improvement bond payable (Durant), at an interest rate of 4.76%, annual principal payments ranging from \$13,530 to \$17,888, due May 15, 2013	109,382
Refunding bonds payable at interest rates varying from 3.0% to 4.0%, annual principal payments ranging from \$50,000 to \$1,000,000, starting May 2006, due May 2021	8,415,000
Less: deferred amount on bond refunding	(492,968)
Plus: premium on 2005 bond issuance (net)	<u>176,979</u>
Total bonded debt	24,174,355
Accumulated compensated absences	<u>822,489</u>
Total long-term debt	<u><u>\$ 24,996,844</u></u>

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE H – LONG-TERM DEBT – Continued

On September 29, 2005, Coldwater Community Schools issued general obligation bonds of \$8,465,000 with an interest rate ranging from 3.0% to 4.0% to advance refund bonds with an interest rate ranging from 4.6% to 5.0%. The bonds mature May 2021. The general obligation bonds were issued at premium after paying issuance costs of \$262,951 which includes underwriters discount, the net proceeds were \$8,347,049. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government – wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$640,473.

The District has defeased 2001 general obligation bond by placing the proceeds of new bond in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and liability for the defeased bond is not included in the District's financial statements. At June 30, 2006, \$7,950,000 of bonds outstanding is considered defeased.

The annual requirements to service all bonds outstanding as of June 30, 2006, including interest payments of \$11,321,106 for the debt service requirements, is as follows:

	Principal	Interest	Total
2007	\$ 1,072,253	\$ 1,339,735	\$ 2,411,988
2008	1,083,399	1,351,542	2,434,941
2009	1,087,870	1,362,597	2,450,467
2010	1,485,559	974,132	2,459,691
2011	1,551,300	908,678	2,459,978
2012-2016	7,444,963	3,543,504	10,988,467
2017-2021	8,995,000	1,704,850	10,699,850
2022-2023	1,770,000	136,068	1,906,068
Total	24,490,344	11,321,106	35,811,450
Deferred amount on bond refunding	(492,968)	-	(492,968)
Unamortized premium on bond issuance	176,979	-	176,979
	<u>\$ 24,174,355</u>	<u>\$ 11,321,106</u>	<u>\$ 35,495,461</u>

Interest expense for the year ended June 30, 2006 was \$1,220,056 also included as a component of interest expense was cost and amortization of bond issuance and bond premiums.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE I – RESERVED AND DESIGNATED FUND BALANCE

The District has reserved and designated fund balances, as of June 30, 2006, as follows:

Reserved fund balance:

Capital Projects Sinking Fund:

Reserve for equipment and
repair projects

\$ 1,174,906

NOTE J – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; errors and omissions; injuries to employee's and natural disasters. The District participates in two distinct pools of education institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subjected to special assessment to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. The District continues to carry commercial insurance for other risk.

NOTE K – RETIREMENT PROGRAM

Plan Description – The District contributes to the statewide Michigan Public School Employee's Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (800) 381-5111. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE K – RETIREMENT PROGRAM – Continued

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006 were 14.87% of payroll for the first quarter and 16.34% through the remainder of the fiscal year. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$2,471,879, \$2,114,112, and \$1,926,929 respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post employment Benefits – Under MPSERS' Act all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred above.

COLDWATER COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE L – PRIOR PERIOD ADJUSTMENT

District Wide Financial Statements:

Statement of Activities:

Net assets previously reported at July 1, 2005	\$ 10,687,809
Prior period adjustment	<u>(237,384)</u>
Net assets as restated at July 1, 2005	<u>\$ 10,450,425</u>

Fund Financial Statements:

Governmental Funds

General Fund:

Fund balance previously reported at July 1, 2005	\$ 4,126,564
Prior period adjustment	<u>(237,384)</u>
Fund balance as restated at July 1, 2005	<u>\$ 3,889,180</u>

The District did not account for certain amounts due to other school districts in connection with Special Education Transportation. When this error was detected a correction to prior periods was required.

NOTE M – COMMITMENT

At June 30, 2006, the District had \$262,898 of retirement buy-outs which are reported as accrued expenditures within the Statement of Net Assets. The amount is not reflected within the General Fund financial statements since the payment will not occur until January, 2007.

COLDWATER COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 6,519,386	\$ 6,449,715	\$ 6,517,767
State sources	16,470,710	17,183,403	17,136,504
Federal sources	983,259	868,506	871,050
Other districts	256,883	236,551	260,605
Total revenues	24,230,238	24,738,175	24,785,926
EXPENDITURES			
Instruction	15,764,421	15,934,862	15,785,768
Support services	8,841,749	9,259,534	9,027,132
Community services	-	9,054	6,884
Total expenditures	24,606,170	25,203,450	24,819,784
Excess (deficiency) of revenues over expenditures	(375,932)	(465,275)	(33,858)
OTHER SOURCES (USES)			
Transfers from (to) other funds	(532,000)	(443,500)	(459,793)
Excess (deficiency) of revenues over expenditures and other uses	(907,932)	(908,775)	(493,651)
FUND BALANCE - BEGINNING AS RESTATED	4,126,564	4,126,564	3,889,180
FUND BALANCE - ENDING	<u>\$ 3,218,632</u>	<u>\$ 3,217,789</u>	<u>\$ 3,395,529</u>

COLDWATER COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
HOT LUNCH FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Local sources	\$ 595,500	\$ 647,671	\$ 601,773
State sources	55,500	76,905	76,905
Federal sources	540,974	624,203	582,334
Total revenues	1,191,974	1,348,779	1,261,012
EXPENDITURES			
Support services:			
Food service	1,278,539	1,214,797	1,187,912
Excess (deficiency) of revenues over expenditures	(86,565)	133,982	73,100
FUND BALANCE - BEGINNING	451,433	451,433	451,433
FUND BALANCE - ENDING	<u>\$ 364,868</u>	<u>\$ 585,415</u>	<u>\$ 524,533</u>

COLDWATER COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
ATHLETIC FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 165,390	\$ 169,130	\$ 192,568
EXPENDITURES			
Support services:			
Athletic programs	<u>585,390</u>	<u>674,767</u>	<u>663,285</u>
Excess (deficiency) of revenues over expenditures	(420,000)	(505,637)	(470,717)
OTHER SOURCES			
Transfers from other funds	<u>450,000</u>	<u>460,000</u>	<u>459,793</u>
Excess (deficiency) of revenues and other sources over expenditures	30,000	(45,637)	(10,924)
FUND BALANCE - BEGINNING	<u>46,499</u>	<u>46,499</u>	<u>46,499</u>
FUND BALANCE - ENDING	<u><u>\$ 76,499</u></u>	<u><u>\$ 862</u></u>	<u><u>\$ 35,575</u></u>

COLDWATER COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Debt Service Funds		Capital Project Fund	
	1994/1997 Refunding Debt Fund	2001/2005 Refunding Debt Fund	2001 Building and Site Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 79,971	\$ 99,796	\$ 8,585	\$ 188,352
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Due to other funds	\$ -	\$ -	\$ 8,585	\$ 8,585
FUND BALANCE				
Undesignated	79,971	99,796	-	179,767
Total liabilities and fund balance	\$ 79,971	\$ 99,796	\$ 8,585	\$ 188,352

COLDWATER COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Debt Service Funds			
	1994/1997 Refunding Debt Fund	2003 Debt Service Fund	Durant Debt Service Fund	2001/2005 Refunding Debt Fund
REVENUES				
Local sources	\$ 1,043,784	\$ -	\$ 88,439	\$ 1,050,718
EXPENDITURES				
Support services	-	-	-	-
Capital outlay	-	-	-	-
Bond issuance cost	-	-	-	262,951
Debt Service:				
Principal	236,327	195,000	61,117	550,000
Interest	813,461	38,050	27,322	341,223
Other	12,915	-	-	-
Total debt service	1,062,703	233,050	88,439	891,223
Total expenditures	1,062,703	233,050	88,439	1,154,174
Excess (deficiency) of revenues over expenditures	(18,919)	(233,050)	-	(103,456)
OTHER SOURCES (USES)				
Proceeds from refunding debt	-	-	-	8,465,000
Bond premium	-	-	-	184,889
Payments to escrow agent	-	-	-	(8,531,938)
Transfer from other funds	-	233,050	-	-
Total other sources	-	233,050	-	117,951
Excess (deficiency) of revenues and other sources over expenditures	(18,919)	-	-	14,495
FUND BALANCE - BEGINNING	98,890	-	-	85,301
FUND BALANCE - ENDING	\$ 79,971	\$ -	\$ -	\$ 99,796

Capital Project Fund		
2001 Building and Site Fund		Totals
\$	1,328	\$ 2,184,269
	2,250	2,250
	8,629	8,629
	-	262,951
	-	1,042,444
	-	1,220,056
	-	12,915
	-	2,275,415
	10,879	2,549,245
	(9,551)	(364,976)
	-	8,465,000
	-	184,889
	-	(8,531,938)
	-	233,050
	-	351,001
	(9,551)	(13,975)
	9,551	193,742
\$	-	\$ 179,767

COLDWATER COMMUNITY SCHOOLS

**INTERNAL CONTROL AND
FEDERAL GRANT REPORTS**

JUNE 30, 2006

CONTENTS

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Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

**Board of Education
Coldwater Community Schools
Coldwater, Michigan**

September 20, 2006

We have audited the financial statements, the governmental activities and each major fund and the aggregate remaining fund information of Coldwater Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered Coldwater Community Schools' internal control over financial reporting in order to determine our auditing procedures for purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether Coldwater Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Governmental Auditing Standards.

**Board of Education
Coldwater Community Schools**

September 20, 2006

This report is intended solely for the information and use of the management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Rumsey & Watkins P.C.".

RUMSEY & WATKINS, P.C.

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**Board of Education
Coldwater Community Schools
Coldwater, Michigan**

September 20, 2006

Compliance: We have audited the compliance of Coldwater Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Coldwater Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Coldwater Community School's management. Our responsibility is to express an opinion on Coldwater Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Coldwater Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on Coldwater Community Schools' compliance with those requirements.

In our opinion, Coldwater Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance: The management of Coldwater Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Coldwater Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

Schedule of expenditures of Federal awards: We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Coldwater Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated September 20, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Rumsey & Watkins PC". The signature is written in a cursive, flowing style.

RUMSEY & WATKINS, P.C.

COLDWATER COMMUNITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Program or Award Amount</u>
DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
National School Lunch Program:			
Commodity bonus	10.550	-	\$ 3,565
Commodity distribution	10.550	-	43,410
Subtotal			<u>46,975</u>
* Breakfast	10.553	51970	15,479
* Breakfast	10.553	61970	92,766
Subtotal			<u>108,245</u>
* Section 4	10.555	51950	9,765
* Section 4	10.555	61950	58,575
* Section 11	10.555	51960	52,646
* Section 11	10.555	61960	305,839
* Snacks	10.555	61980	289
Subtotal			<u>427,114</u>
Child Care Meals	10.558	51920	655
Child Care Snack	10.558	52010	49
Child Care Meals	10.558	61920	1,951
Child Care Snack	10.558	62010	160
Subtotal			<u>2,815</u>
Total Department of Agriculture			585,149

* Designates major program

Accrued or (Deferred) Revenue at July 1, 2005	Current Year Receipts	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2006	Prior Years Expenditures
\$ -	\$ 3,565	\$ 3,565	\$ -	-
-	43,410	43,410	-	-
-	46,975	46,975	-	-
-	15,479	15,479	-	-
-	92,766	92,766	-	-
-	108,245	108,245	-	-
-	9,765	9,765	-	-
-	58,575	58,575	-	-
-	52,646	52,646	-	-
-	305,839	305,839	-	-
-	289	289	-	-
-	427,114	427,114	-	-
-	655	655	-	-
-	49	49	-	-
-	1,951	1,951	-	-
-	160	160	-	-
-	2,815	2,815	-	-
-	585,149	585,149	-	-

COLDWATER COMMUNITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Program or Award Amount</u>
DEPARTMENT OF EDUCATION			
Passed Through State Department of Education :			
Title I Educationally Deprived Children LEAS			
* Title I	84.010	041530 0405	9,352
* Title I	84.010	051530 0405	506,585
* Title I	84.010	051530 0506	22,296
* Title I	84.010	061530 0506	466,904
Subtotal			<u>1,005,137</u>
Adult Basic Education	84.002	051120 5500704	7,062
Adult Basic Education	84.002	051130 510985	29,776
Adult Basic Education	84.002	051130 610986	1,200
Adult Basic Education	84.002	061120 6500705	7,000
Adult Basic Education	84.002	061130 610986	23,800
Subtotal			<u>68,838</u>
Title V	84.298	050250 0506	1,971
Title V	84.298	060250 0506	6,110
Subtotal			<u>8,081</u>
Title II, Part D	84.318	054290 0506	1,224
Title II, Part D	84.318	064290 0506	8,710
Subtotal			<u>9,934</u>

* Designates major program

Accrued or (Deferred) Revenue at July 1, 2005	Current Year Receipts	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2006	Prior Years Expenditures
939	939	-	-	9,352
184,953	184,953	-	-	506,585
-	22,296	22,296	-	-
-	407,239	437,834	30,595	-
<u>185,892</u>	<u>615,427</u>	<u>460,130</u>	<u>30,595</u>	
6,184	6,184	-	-	7,062
27	27	-	-	29,776
-	-	1,200	1,200	-
-	3,918	5,565	1,647	-
-	1,184	23,800	22,616	-
<u>6,211</u>	<u>11,313</u>	<u>30,565</u>	<u>25,463</u>	
-	1,971	1,971	-	-
-	1,671	3,108	1,437	-
<u>-</u>	<u>3,642</u>	<u>5,079</u>	<u>1,437</u>	
-	530	1,224	694	-
-	8,710	8,710	-	-
<u>-</u>	<u>9,240</u>	<u>9,934</u>	<u>694</u>	

COLDWATER COMMUNITY SCHOOLS**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF EDUCATION - Continued			
Passed Through State Department of Education - Continued			
Title II, Part A	84.367	050520 0405	162,647
Title II, Part A	84.367	050520 0506	21,583
Title II, Part A	84.367	060520 0506	182,124
Subtotal			<u>366,354</u>
Title III	84.365	040580 0405	4,210
Title III	84.365	050580 0405	26,698
Title III	84.365	060580 0506	45,215
Subtotal			<u>76,123</u>
Handicapped Preschool and School Program	84.027	060440 SPSR	4,400
Reading First State Grant	84.357	052910 050601	<u>94,723</u>
Total Department of Education			1,633,590

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Passed Through Department of Labor
and Economic Growth:

Learn and Serve	94.004	30600 26573	15,000
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DEPARTMENT OF DOMESTIC PREPAREDNESS

Passed Through State Department
of Police:

2003 State Homeland Security Grant Program, Part II Equipment	97.004	-	4,952
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<u>Accrued or (Deferred) Revenue at July 1, 2005</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2006</u>	<u>Prior Years Expenditures</u>
87,348	87,348	-	-	162,647
-	21,583	21,583	-	-
-	149,726	182,124	32,398	-
<u>87,348</u>	<u>258,657</u>	<u>203,707</u>	<u>32,398</u>	
4,210	4,210	-	-	4,210
26,698	26,698	-	-	26,698
-	35,693	42,155	6,462	-
<u>30,908</u>	<u>66,601</u>	<u>42,155</u>	<u>6,462</u>	
-	1,936	1,936	-	-
-	83,380	94,723	11,343	-
<u>310,359</u>	<u>1,050,196</u>	<u>848,229</u>	<u>108,392</u>	

-	3,854	3,854	-	-
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-	4,952	4,952	-	-
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COLDWATER COMMUNITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
OTHER FEDERAL ASSISTANCE			
Passed Through Calhoun			
Intermediate School District:			
Drug Free Schools	84.186	DRUG0399	13,864
Drug Free Schools	84.186	DRUG0399	1,043
Drug Free Schools	84.186	DRUG0399	13,261
Vocational Education Technical Preparation	84.243	354859123	930
Vocational Education Technical Preparation	84.243	354859123	<u>1,000</u>
Total Other Federal Assistance			<u>30,098</u>
Total Federal Assistance			<u><u>\$ 2,268,789</u></u>

Accrued or (Deferred) Revenue at July 1, 2005	Current Year Receipts	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2006	Prior Years Expenditures
139	139	-	-	13,864
-	1,043	1,043	-	-
-	8,651	10,157	1,506	-
(42)	-	-	(42)	-
-	-	-	-	-
97	9,833	11,200	1,464	
<u>\$ 310,456</u>	<u>\$ 1,653,984</u>	<u>\$ 1,453,384</u>	<u>\$ 109,856</u>	

COLDWATER COMMUNITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

**RECONCILIATION OF TOTAL FEDERAL
ASSISTANCE TO FINANCIAL STATEMENTS:**

Total Federal Assistance received	\$ 1,653,984
Accrued revenue at July 1, 2005	(310,456)
Accrued revenue at June 30, 2006	<u>109,856</u>
Total Federal Sources per financial statements	<u><u>\$ 1,453,384</u></u>

ADDITIONAL COMMENTS

There were no Federal monies in which the District acted as a fiscal agent or passed through to subrecipients.

For the grants tested in accordance with the Single Audit Act, the expenditures identified in the schedule of expenditures of Federal awards are supported by source documentation, accurate, current, proper and in agreement with financial reports submitted to the Michigan Department of Education.

Per review of the June 30, 2005 schedule of findings and questioned costs, no items were noted in the prior years.

COLDWATER COMMUNITY SCHOOLS
NOTES TO INTERNAL CONTROL AND FEDERAL GRANT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Coldwater Community Schools conform to the generally accepted accounting principles in the United States of America as applicable to school districts. Please refer to Note A of the financial statements for a summary of significant policies.

NOTE B – GRANT SECTION AUDITORS REPORT

Management has utilized the Grant Section Auditors Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

COLDWATER COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Coldwater Community Schools.
2. No reportable conditions relating to the audit of financial statements are reported in the Report on compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with Governmental Auditing Standards.
3. No instances of noncompliance material to the financial statements of Coldwater Community Schools were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for Title I and National School Lunch Program expresses an unqualified opinion. No other major programs exist.
6. Audit findings relative to the major federal award programs for Coldwater Community Schools is reported in this schedule.
7. The programs tested as major programs include: Title I CFDA number 84.010 and National School Lunch Program CFDA numbers 10.553 and 10.555.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Coldwater Community Schools was determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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Phone (517) 279-7931 * Fax (517) 278-7087

September 20, 2006

Milli Haug, Superintendent
Coldwater Community Schools
Coldwater, Michigan 49036

The following items have been discussed with your administrative staff during the 2005-06 audit:

SPECIAL EDUCATION TRANSPORTATION REIMBURSEMENTS

The current year settlement with the other school districts for Special Education transportation expenditures were based upon preliminary calculations rather than final year end audited amounts. The District did not include all the final adjustments for wage and fringe benefit accruals. We would recommend future final settlements not be made until all year end adjustments are done. It would be appropriate to provide a preliminary schedule to the other districts so they could record an amount within their accounting records for their year end audit.

STUDENT ACTIVITY RECEIPTS

During the testing performed for the Student Activity Funds, we noted various deposits were not being made in a timely fashion. We suggest the District review procedures to ensure money collected for these fiduciary funds is being timely deposited. This will not only assist in protecting the assets trusted to the District, but will allow for a timelier picture of the various student activity groups.

STUDENT ACTIVITY BALANCES

The Student Activity Fund has had various groups maintain negative cash balances. During 2006, it was discovered that the graduating class had incurred a significant negative balance. Since the class will not be around to eliminate this deficit, we believe the practice of allowing excess disbursements is evaluated. The District needs to review the various organizations with negative balances and determine how these deficits will be eliminated in the future. In addition, the approval of disbursements needs to be reevaluated to not allow various groups to accumulated significant negative balances.

BUDGET UPDATING

The final approved June 2006 budgets were not entered into the general ledger system for management to evaluate the 2005-06 actual results with the final budget. We believe this was a matter of time constraints on your administrative staff with the various changes that occur during the end of 2005-06 and is being done after our audit was completed.

DESIGNATION OF FUND BALANCES

We would recommend management continue to evaluate the various long-term plans for the District and accordingly incorporate these plans into the designation of fund balance for the various funds of the District. The designations should incorporate items such as replacement of transportation or cafeteria equipment and future long-term commitments such as compensated absences. This allows everyone to focus on the undesignated portion of the fund balance, which essentially is the amount available for continued operations of the District.

The purpose of this letter is to document and communicate our discussions with your administrative staff during the audit. We would like to thank all your administrative staff for their cooperation and assistance during this year's audit. After reviewing this letter, we would be glad to discuss any of these matters further with you and assist in the implementation.

A handwritten signature in cursive script that reads "Rumsey & Watkins P.C.".

RUMSEY & WATKINS, P.C.